ANSALDO STS S.P.A.
REGISTERED OFFICE IN GENOA, VIA PAOLO MANTOVANI 3 – 5
SHARE CAPITAL €100,000,000.00 FULLY SUBSCRIBED AND PAID UP
REGISTRATION NUMBER AT THE GENOA COMPANY REGISTER AND TAX IDENTIFICATION NUMBER 01371160662
SUBJECT TO THE DIRECTION AND COORDINATION OF HITACHI LTD.

**Ordinary and Extraordinary General Shareholders' Meeting**

**10 May 2018**

*Explanatory report of the Board of Directors produced pursuant*

*to Article 125-ter of Legislative Decree No. 58 of 24 February 1998 on*

*the*

**Second item on the agenda of the Ordinary session:**

***"2. First Section of the Report on remuneration. Related and consequent resolutions."***

* * * * *

Dear Shareholders,

This Remuneration Report shows, in compliance with the laws and regulatory provisions in force, the basic principles and guidelines to be pursued by Ansaldo STS S.p.A. with its Remuneration policy, approved by the Board of Directors on 14 March 2018, upon proposal by the Nomination and Remuneration Committee and, subject to the opinion of the Chief Executive Officer, as regards the remuneration of Managers with Strategic Responsibilities.

In particular, in accordance with Art. 123-*ter* of Italian Legislative Decree 58/1998, in the first section of the Report, which is indicated in full below, the main contents of the Remuneration policy are pointed out (the powers conferred on the matter to the company bodies, the fixed and variable components of the remuneration, the methods for assigning the variable components and the bonus), as well as the information concerning the actual adoption and implementation of the policy itself.

With the Remuneration Report, the Company intends to submit to your attention a clear illustration of the overall top management remuneration system of Ansaldo STS, so that you can consciously express your advisory vote on the first section of the Report, as provided by Art. 123-*ter*, paragraph 6, of Italian Legislative Decree 58/1998.

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## SECTION I: REMUNERATION POLICY FOR THE FINANCIAL YEAR 2018

### *A)* Bodies or people involved in preparing and approving the Remuneration Policy; with roles, bodies and people in charge of correctly implementing such policy

The Board of Directors approves the Remuneration Policy on an annual basis, on a proposal of the Nomination and Remuneration Committee (*see below, letter B*).

The Remuneration Policy for the financial year 2018, as described in this section of the Report, is submitted for a non-binding resolution of the General Meeting, called pursuant to Article 2364 paragraph 2 of the Italian Civil Code.

The Bodies in charge of the correct implementation of the Policy are the Nomination and Remuneration Committee in the exercise of its duties as described below, as well as the Chief Executive Officer and the Board of Directors.

### *B)* Action of the Nomination and Remuneration Committee, composition, tasks and operating procedures of this Committee

The Nomination and Remuneration Committee, which submitted the Remuneration Policy proposal to the Board of Directors, is composed of a number of Directors set by the Board of Directors upon its appointment, all of whom are non-executive and independent as required by Article 16 of Consob Regulation No. 20249 of 2017, by the Corporate Governance Code and by the Committee Rules. At least one member of the Nomination and Remuneration Committee has adequate knowledge and experience in financial or remuneration policy, to be assessed by the Board of Directors at the time of the appointment.

The members of the Nomination and Remuneration Committee appointed by the Board of Directors on 16 May 2016 were the independent directors Ms Katharine Painter (Chairman), Mr Alberto de Benedictis and Mr Mario Garraffo.

The Nomination and Remuneration Committee is assigned the following tasks, in connection with the Remuneration Policy:

- submit proposals to the Board of Directors on the remuneration policy for directors and Executives with Strategic Responsibilities, if any;
- make periodical evaluations of the adequacy, overall consistency and actual implementation of the remuneration policy mentioned in the preceding item, making use of the information provided by the Chief Executive Officer as concerns Executives with Strategic Responsibilities, and submit proposals on this matter to the Board of Directors, where appropriate;
- submit proposals or give opinions to the Board of Directors on the remuneration of executive

directors and of any other directors holding particular offices as well as on the performance targets linked to the variable part of such remuneration, monitoring the implementation of the decisions taken by the same Board and verifying the actual achievement of the performance targets;

- evaluate the proposals of the Chief Executive Officer relevant to the general remuneration and incentive policy, as well as to the management development systems and plans, for the key resources of the Group and the directors vested with powers of the Group companies;
- assist the Company top management in defining the best policy for handling the managerial resources of the Group;
- propose share-based remuneration plans in favour of Directors and Managers of the Company and of the other Group companies and the relevant implementing regulations, carrying out the tasks reserved to it for the management of the plans adopted by the Company case by case;
- report to the Company's shareholders on the way in which it carries out its duties.

In the performance of its duties, the Committee shall ensure suitable functional and operational links with the relevant corporate structures.

The Committee reports to the Board of Directors at least every six months.

***C)*** **Name of the independent experts, if any, involved in preparing the Remuneration Policy**

No independent experts have been involved in preparing the Remuneration Policy.

***D)*** **Aims of the Remuneration Policy, underlying principles and changes in such policy, if any, from the financial year 2017**

The Company's Remuneration Policy aims to attract, retain and motivate managers with high professional skills, who are able to successfully manage the Company.

In particular, the remuneration of the Chief Executive Officer, the General Manager and the Executives with Strategic Responsibilities, aims to:

- align the interests of the said people with the priority objective of creating shareholder value in a medium-long term perspective;
- create a strong connection between remuneration and performance, both individual and of the Group, by involving and incentivising said people, insofar as their action is deemed to be essential to the achievement of the Company and Group targets;
- enhance the loyalty of the key resources, thus encouraging their permanence within the Company and the Group;
- convey the Company intent to share the expected increase in the Company's value with the top professionals of the Group.

For non-executive Directors, the Remuneration Policy takes into account the commitment required from each of them and their participation, if any, in one or more committees, and it is not linked to the economic performance of the Company (*see* paragraph *N)* below).

Compared to the Remuneration Policy for the financial year 2017, which was approved by the Board of Directors on 24 March 2017 and submitted to the resolution of the Shareholders on 11 May 2017 – called to give its non-binding advice on the first part of the Report wherein details on such Policy were provided, the Remuneration Policy for the financial year 2017 has remained substantially unchanged.

***E)*** **Description of the policies on fixed and variable components of the remuneration, with particular regard to the indication of the relevant weight in the total remuneration, differentiating between short and medium-long term variable components**

With regard to the fixed component of the remuneration, the Corporate Governance Code recommends that such remuneration should be sufficient to compensate the services of the Chief Executive Officer, the General Manager and the Executives with Strategic Responsibilities in the event that no variable component is paid.

With regard to the variable component, the Corporate Governance Code recommends that the remuneration of the Chief Executive Officer, the General Manager and the Executives with Strategic Responsibilities should comply with the following criteria:

- the fixed and the variable component should be suitably balanced;
- maximum limits should be indicated for the variable components;
- the performance targets should be predefined, measurable and connected with the creation of shareholders value in a medium-long term perspective;
- a significant part of the variable component of the remuneration should be suitably postponed by an appropriate period, after accrual.

With specific regard to share-based remuneration plans, the Corporate Governance Code recommends:

- that shares, options and any other rights assigned to the directors, the General Manager and Executives with Strategic Responsibilities to buy shares or be remunerated on the basis of the share price trends, should have an average vesting period of at least three years;
- that the vesting as per the preceding item should be subject to predefined, measurable performance targets;
- that the directors should keep part of the shares allocated or acquired through the exercise of such rights until the end of their term of office.

In line with the above, the Remuneration Policy states that the remuneration should consist of[1]:

- a fixed component consisting:
    a. for the Chief Executive Officer and General Manager:

[1] It must be pointed out that, in the event that the General Manager' role is assigned to a person other than the Chief Executive Officer, the Remuneration Policy described in this section of the Report concerning Executives with Strategic Responsibilities is also applicable to the General Manager.

i. of the fee approved by the ordinary General Meeting upon appointment for the office of member of the Board of Directors; and
ii. of the fee approved by the Board of Directors on a proposal of the Nomination and Remuneration Committee, after hearing the opinion of the Board of Statutory Auditors, received as Chief Executive Officer; and
iii. of the fee approved by the Board of Directors on a proposal of the Nomination and Remuneration Committee, for the office of General Manager;

b. for non-executive Directors, of the fee approved by the ordinary General Meeting upon appointment for the office of member of the Board of Directors; and

c. for Executives with Strategic Responsibilities, of the annual fixed gross remuneration under the individual contract signed by the Executives with Strategic Responsibilities, in compliance with the provisions of the applicable collective bargaining regulations;

- a variable component, both for the Chief Executive Officer and General Manager and for the Executives with Strategic Responsibilities consisting:

a) of a short-term variable incentive instrument, subject to the achievement of performance targets predefined on an annual basis (known as *Management by Objectives* or "**MBO**"), both of corporate nature (such as the *Earning Before Interests and Taxes* – EBIT and the *Free Operating Cash Flow* – FOCF)**,** and of individual nature, depending on the office held (such as the value of the orders acquired, the achievement of certain values of the sector-specific EBIT and the achievement of certain structural costs, or specific quantity-quality targets).

The MBO should be designed to provide that the maximum proportion of the incentive, deriving from the achievement of the targets indicated from time to time, shall not, in any event, exceed 100% of the fixed component of the Chief Executive Officer and General Manager, as well as the Executives with Strategic Responsibilities. In order to further incentivize the achievement and the improvement of the performance targets, the MBO shall also provide over-performance mechanisms. In addition, the MBO may provide that the budget is a parameter to establish the proportion of incentive to be paid, as well as (i), in the event of achievement of a certain percentage of the budget, a proportion of the incentive is paid, (ii) if the predefined budget is achieved, the entire proportion of the incentive is paid, and (iii) if the targets predefined in the budget increase, a greater amount of the one initially set up is paid, in order to incentivize the over-performance, which in any case will not exceed 100% of the fixed component;

b) of a medium-long term cash incentive (known as *Long Term Incentive Plan* or "**LTIP**"), structured on the basis of three-year *rolling* cycles, subject to the achievement of the following targets:

- *Net Result* as the access threshold;
- two annual performance targets, to be identified among the main economic-financial indicators, such as the achievement of certain values in terms of Orders, ROE, ROA, ROS and FOCF.

The maximum proportion of the fully operational incentive to the service of the LTIP shall not exceed the fixed component of the plan beneficiaries' remuneration.

In order to encourage and remunerate in compliance with the results over a medium-long period, the Remuneration Policy also states that LTIP plans shall arrange, for the targets to which they apply, mechanisms both for the recovery in subsequent years of any underperformance registered in previous years, and for carrying over to subsequent years any over-performance registered in each plan year.

In order to align the interests of the plan beneficiaries with the creation of shareholder value in a medium-long term perspective, LTIP plans also provide for the accrual of the incentive portions to occur as follows:

- 25% of the incentive for the first year of the cycle;
- 25% of the incentive for the second year of the cycle; and
- the remaining 50% at the end of the three years.

Also, in order to postpone the allocation of a significant part of the variable remuneration by a suitable period, the Remuneration Policy provides for the payment of the incentive portions accrued with respect to each year and to each target to be postponed by one year from the time of approval of the financial statements certifying the achievement of the targets;

c) of a medium-long term variable incentive based on shares (known as "*Stock Grant Plan* or "**SGP**"), of multiple years' duration.

The allocation of the shares shall be subject to certain conditions precedent, namely the achievement of the following annual performance indicators:

- *Free Operating Cash Flow* (FOCF);
- STS Share vs. FTSE IT *All Share*;
- Economic Value Added (EVA).

The incidence of each target for the allocation of incentives is defined by the Board of Directors, on a proposal of the Nomination and Remuneration Committee.

In order to encourage and remunerate the maintenance of medium-long term period results, the Nomination and Remuneration Policy requires the SGP to be structured in such manner as to ensure that:

(i) at least 50% of the shares that may be allocated under the plan accrues on achievement of the targets of the last year;

(ii) as regards each of the targets, there are : (i) mechanisms for the recovery of any underperformance registered in previous years, as well as (ii) mechanisms for carrying over, to subsequent years, any over-performance registered in previous years;

(iii) with regard to the achievement of each target, a tolerance threshold may be indicated on occasion of the annual final balance, for the failed achievement of 100% of the relevant target, but not to exceed 2.5%, thus allowing the accrual to the beneficiary of a corresponding proportion of the shares owed under the plan.

As for the vesting period, the Stock Grant Plan shall provide – in line with the recommendations of the Corporate Governance Code – for a three-year rolling vesting period, starting, for the first corporate year, from the date of approval of the SGP by the General Meeting of Shareholders and, for the subsequent years, from the corresponding date of each year.

The Remuneration Policy also provides for a lock-up clause to be established at the end of the vesting period mentioned above for the Chief Executive Officer, the General Manager and the Executives with Strategic Responsibilities, on a significant portion of the shares allocated, to be identified under the responsibility of the Board of Directors, on a proposal of the Nomination and Remuneration Committee, for a period of two years in relation to the 20% accrued stock.

In addition to the above, the Board of Directors, on a proposal of the Nomination and Remuneration Committee, may resolve to recognise a bonus of variable amount – up to a maximum of 20% of the fixed component of the Chief Executive Officer and General Manager and 25% of the fixed component of the Executives with Strategic Responsibilities – based on the achievement of predetermined targets and/or further targets that are not identified in advance but actually achieved. Generally, it is noted that the performance of the Chief Executive Officer and General Manager, as well as the Executives with Strategic Responsibilities, is assessed not only on the basis of the annual results, but also in consideration of the medium/long-term results.

***F)* Non-monetary benefits policy**

The Remuneration Policy contains no provisions regarding non-monetary benefits. The Chief Executive Officer and General Manager and the Executives with Strategic Responsibilities are granted the use of the corporate car for both business and private use and eventually, if the need therefore arises, the use of a dwelling, even for limited periods, according to the customary practice adopted in the company by the other managers.

***G)* With regard to the variable components, description of the performance targets on the basis of which they are granted, differentiating between short and medium-long term variable components, and information on the link between the variation of the results and the variation of the remuneration**

See letter E).

***H)*** **Criteria used for the assessment of the performance targets on which the allocation of shares, options and other financial instruments or variable remuneration components is based**

Each of the performance target values identified by the Remuneration Policy for paying the variable component of the remuneration are selected by giving preference to operating and financial objectives and target values in line with the creation of shareholder value over the medium-long period. For this purpose, mechanisms are also provided for the recovery of any underperformance registered in previous years, as well as for carrying over to subsequent years any over-performance registered in previous years.

Generally speaking, the target values and objectives are based on the specific business of the Company and are indicators of the ability of that company – which mainly operates in the management of multi-year job orders – to be self-financing and to handle the risk associated with its business over the medium-long period. The objectives connected with the performance of the Company's shares compared to the FTSE IT *All Share* index trend have been chosen as they represent, in the Company's opinion, objective criteria to measure the creation of value of the Company's shares over the medium-long term.

***I)*** **Information aimed at highlighting the consistency of the Remuneration Policy with the pursuit of the company's long-term interests and with the risk management policy**

The Remuneration Policy states that the performance targets outlined above, the target values and the procedures for paying the variable component shall be consistent with the risk management policy adopted by the Company, because they must take into account the risks taken by Ansaldo STS, as well as the necessary capital and liquidity requirements of the Company to deal with the activities undertaken.

As explained in letter *H),* the said parameters are consistent with the pursuit of the long-term interest of the Company.

***J)*** **Accrual entitlement terms (so-called vesting period), any deferred payment schemes, with indication of the postponement periods and of the criteria used to define such periods and the ex post correction mechanisms**

As regards the vesting period and the postponement periods, see letter *E).*

The *vesting period* and the postponement periods are defined in view of the specific activity carried out by the Company - which mainly operates in the management of multi-year job orders - and with a view to aligning the management's interest with the pursuit of shareholders value creation over the medium-long period.

The Remuneration Policy provides that - with regard to the Chief Executive Officer's and the General Manager's variable remuneration components (as well as those of the Executives with Strategic

Responsibilities) - the Company is allowed, by contract, to demand the repayment (or withhold the deferred payment), in whole or in part, of the variable remuneration components that have been paid on the basis of data which has - within a period of three years from disbursement - been proven by the competent departments to be manifestly erroneous (so-called claw-back clauses).

The claw-back clauses must subject the effective application thereof to the condition that the Company's Board of Directors gives a binding opinion in relation thereto.

As indicated in letter *E*), the policy provides, moreover, for mechanisms for recovering any underperformance registered in previous years, as well as for carrying over to subsequent years any over-performance registered in previous years.

***K)*** **Information on possible clauses for the maintenance of financial instruments in the portfolio after their acquisition, with indication of the maintenance periods and of the criteria used to define such periods**

As indicated under letter *E),* the Remuneration Policy states that, with regard to the Chief Executive Officer and the General Manager and the Executives with Strategic Responsibilities, the SGPs must provide for a lock-up clause on a significant portion of the shares allocated, to be identified by the Board of Directors, on a proposal of the Nomination and Remuneration Committee, for a period of two years. The duration of such lock-up period, which, as said above, starts after the end of the three-year vesting period, meets the need to align the interests of the top management of the Company with those of the shareholders over the medium-long period.

***L)*** **Policy for compensation in the event of cessation from office or termination of the employment contract**

The Remuneration Policy does not provide for agreements to be stipulated between the Company, the Directors, the General Manager and the Executives with Strategic Responsibilities, granting indemnities in the event of resignation or dismissal/termination without just cause or cessation of the employment in consequence of a takeover bid.

Except for voluntary resignation from office and/or from the employment without just cause, or termination and/or dismissal for just cause, the Board of Directors - after consulting with the Nomination and Remuneration Committee and the Board of Statutory Auditors – may execute with the Chief Executive Officer and/or General Manager agreements aimed at regulating ongoing relationships, that grant the Chief Executive Officer and/or General Manager an indemnity for termination or non-renewal of office; this indemnity may not exceed 24 months' total remuneration for the offices and/or relationships that are ongoing when the termination occurs.

The compensation applicable to cessation from office or termination of the employment shall be regulated by specific agreements with the ceased individuals, as well as by specific provisions, if any, of the regulations of the LTIP and SGP plans and/or of the national collective bargaining agreement for company managers.

***M)*** **Information on insurance, social-security or pension benefits, other than mandatory ones**

The Remuneration Policy does not provide for insurance, social-security and pension benefits for the Chief Executive Officer, the General Manager and the Executives with Strategic Responsibilities, other than those required under the national collective bargaining agreement for the category, applicable to the Group managers.

***N)*** **Remuneration policy on: (i) independent directors, (ii) participation in committees and (iii) the performance of certain tasks**

As recommended by the Corporate Governance Code, the remuneration of non-executive Directors is not linked to the economic performance the Company and/or the Group.

The remuneration of non-executive Directors, as mentioned above under letter *D)* of the Report, consists only of a fixed component, as resolved by the ordinary General Meeting.

Considering the definition of executive directors under Article 2.C.1 of the Corporate Governance Code, the Chief Executive Officer is executive.

Likewise, the Chairman of the Board of Directors is also considered executive - even if he has received no particular delegation by the Board of Directors and therefore holds no executive role within the Company - by virtue of the posts held in the Hitachi Group.

In view of the above, all Independent Directors of the Company are non-executive. The remuneration policy followed by the Company for these Directors is therefore the same as for all non-executive Directors.

As regards the remuneration of Directors who take part in internal committees of the Board of Directors (the Control and Risk Committee, which also functions as Related-Party Transactions Committee, and the Nomination and Remuneration Committee), the Policy states that they shall receive, in return for participation in each committee, an additional fee defined by the Board of Directors, upon a prior proposal from the Nomination and Remuneration Committee.

The Chairman and Vice Chairman of the Board of Directors receive a fixed fee defined by the ordinary General Meeting.

***O)*** **Information on the use, for reference if necessary, of the Remuneration Policy of other companies**

The Remuneration Policy has been drawn up by the Company without reference to the policy of any other companies.

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In light of the above, we submit for your approval the following resolution:

" *Ansaldo STS S.p.A. Ordinary Shareholders' Meeting*,

- *after having examined and discussed the section of the report on remuneration foreseen by Article 123-ter, paragraph 3, of Legislative Decree No. 58/1998, which was approved by the Board of Directors upon the Nomination and Remuneration Committee so proposing, which contains the description of the Company's policy on remuneration for members of Boards of Directors, the General Manager and Managers with Strategic Responsibilities, and the procedures used for adopting and implementing this policy and which was made available to the public in the manner and time required by law;*
- *considered that the aforementioned section of the remuneration report and the policy described therein are compliant with the provisions of the applicable legislation on the remuneration of members of the Board, the General Manager and Managers with Strategic Responsibilities,*

*resolves*

- *to adopt the first section of the report on remuneration provided for under Article 123-ter, paragraph 3, of Legislative Decree. No. 58/1998, which was approved by the Board of Directors on 14 March 2018 and which illustrates the Company's policy on the remuneration of members of Boards of Directors, the General Manager and Managers with Strategic Responsibilities, as well as the procedures used for adopting and implementing this policy*".

Genoa, 6 April 2018

For the Board of Directors

The Chairman

(Alistair Dormer)